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Introduction

Rudiger Dornbusch and Sebastian Edwards

Macroeconomic instability has long been a salient feature of the Latin American economies. Inflationary outbursts, balance of payments crises, and painful stabilization attempts have dominated the economic history of the region since, at least, the early twentieth century. The magnitude of macroeconomic convulsions in Latin America is particularly startling when compared with the tranquility that has characterized the macroeconomic environment in other parts of the world, especially Southeast Asia.

How can we explain Latin America's proclivity toward macroeconomic mismanagement? Is it deeply rooted ignorance on the mechanics of deficit financing, or is it the deliberate consequence of Machiavellian politics or, is it, perhaps, the unavoidable outcome of distributional struggles? The papers and commentary collected in this volume constitute an effort to answer some of these questions. These articles address issues related to income inequality and political institutions at the regional level and analyze, in great detail, important episodes of macroeconomic crises in Argentina, Brazil, Chile, Colombia, Mexico, Nicaragua, and Peru.

The papers in this book take as a point of departure the description of the broad characteristics of the economics of populism that we set forward in chapter 1. In that chapter we argue that, although we clearly recognize that populist episodes have had specific and unique characteristics in different nations, they tend to have some fundamental common threads. In particular, populist regimes have historically tried to deal with income inequality problems through the use of overly expansive *macroeconomic* policies. These policies, which have relied on deficit financing, generalized controls, and a disregard for basic economic equilibria, have almost unavoidably resulted in major macroeconomic crises that have ended up hurting the poorer segments of society. As the case studies collected here clearly show, at the end of every

populist experiment real wages are lower than they were at the beginning of these experiences.

The devastating effects of the Great Depression on the Latin economies, the vast income inequalities in almost every country in the region, a naive confidence in the ability of governments to cure all social and economic ills, and the ideas of the United Nations Economic Commission on Latin America in the 1950s are among some of the most important doctrinal and historical roots of traditional populist views in Latin America. Although a number of the chapters in this volume address these issues in detail, the main emphasis of the collection is on macroeconomic policy. In a way this has been deliberate, since we are persuaded that it is precisely because of macroeconomic mismanagement that populist experiences have failed. We are, in fact, convinced that the concerns for poverty and inequality are not only legitimate but clearly of great urgency. The issue is not whether these distributional problems should be addressed by policymakers, but how to better tackle them. In this respect the message emerging from the papers in this book is clear: the use of macroeconomic policy to achieve distributive goals has historically led to failure, sorrow, and frustration. The articles in this volume do not deal with the evaluation of alternative programs for dealing with extreme poverty situations nor do they deal with detailed ways of coordinating macroeconomic management with poverty alleviation programs. We think, however, that these issues should be high on the list of priorities for the research agenda of the next few years.

An Overview of the Volume

The first part of the volume includes two chapters that address some of the most salient aspects of populist economics' doctrine and policies. In chapter 2, Robert R. Kaufman and Barbara Stallings address some political angles of Latin American populism, emphasizing the relationship between political and economic goals, as well as the role of unequal income distribution and class conflict in the genesis of populism. Kaufman and Stallings also inquire on the possible future prospects for populist policies, arguing that in an increasingly global world economy individual populist adventures will become more and more rare. Chapter 3, by Eliana Cardoso and Ann Helwege, deals with income distribution and populism in Latin America, using cross-country evidence. They show that, in spite of their stated purposes, populist experiments have failed to benefit the poorest segments of population; in classical populist episodes income redistribution has run from the agricultural and export sectors to workers and capitalists in the urban area. Cardoso and Helwege also argue that the inability of populist regimes to make corrections to their policies, once they become clearly unsustainable, resides in those regimes' lack of social cohesion and powerful political parties. When the time comes to

implement a macroeconomic adjustment package, politicians hesitate and are unable to decide on which groups to place the costs of stabilization.

Part two of the book deals with populist experiences in six countries—Argentina, Chile, Brazil, Mexico, Peru, and Nicaragua—and with the absence of populism in recent Colombian history. Chapters 4 and 5 deal with (some of) Argentina's bouts with populism. In chapter 4, Federico A. Sturzenegger analyzes the Argentinian economic experience during the second Peronist administration of 1973–76. He points out that although this Argentinian episode fits our general paradigm, the different phases were extremely long. Sturzenegger shows that during this period a number of stabilization attempts—both abrupt and gradual—were initiated only to be rapidly abandoned. At the end, the Peronist experience had the fate of so many other episodes: political unrest and economic collapse. In a more general perspective, Roque Fernández looks in chapter 5 at the way in which recurrent episodes of populist expansive macroeconomic policies have affected the strategy to combat hyperinflation in that country. In his discussion Fernández deals with some important theoretical aspects of stabilization, including time consistency and credibility. He argues that the lack of credibility has indeed been related to Argentina's failed stabilizations. In chapter 6, Paulo Rabello de Castro and Marcio Ronci argue that modern Brazilian economic history can be better understood as the succession of populist governments. They contest the notion of a causal relationship going from poor income distribution to populist policies and that populism is related to macroeconomic disequilibrium. In their view, Brazil's traditional populism—Getúlio Vargas's brand of populism—was characterized by a marked absence of macroimbalances; according to them the main feature of Brazilian traditional populism was the reliance on very strong interventionist policies. According to the authors' interpretation, the inflationary saga of the last 35 years in Brazil has been the direct consequence of Vargas's populist and interventionist development strategy.

In chapter 7, Felipe Larraín and Patricio Meller analyze the economic policy of Allende's Chile (1970–73). They make a clear distinction between Allende's structural reform program—which had an important, if not dominant, socialist orientation—and his short-run macroeconomic policies. The latter, they claim, had important populist elements, and followed closely the euphoria to doom phases discussed by Dornbusch and Edwards.¹ Carlos Bazdresch and Santiago Levy evaluate, in chapter 8, Mexico's economic policy from the late 1950s through the eruption of the debt crisis in August of 1982, in the light of the populist paradigm. They argue that in contemporary Mexico there have been two populist episodes: the Cárdenas and the Echeverría—

1. R. Dornbusch and S. Edwards, "The Macroeconomics of Populism in Latin America," *Journal of Development Economics* 32, no. 2 (April 1990): 247–77.

Lopez Portillo administrations. They go on to show that the cycle of redistribution, growth, and economic collapse is largely applicable to these episodes. Indeed, the debt crisis, and its concomitant effects, is the most visible manifestation of the failure of these policies.

Chapter 9, by Ricardo Lago, deals with Peru's populist policies under Alán García. He shows how the motivation for policies, as well as their implementation, followed neatly the populist paradigm presented in this introduction. Lago also illustrates vividly the way in which populist goals handicapped, from the very beginning, every attempt to stabilize the economy and correct the most serious macroeconomic disequilibria. In chapter 10, Jose Antonio Ocampo evaluates the economic policy in Nicaragua under the Sandinista rule. As in the case of Allende's Chile, this experience provides a combination of socialist oriented reforms with classical populist macroeconomic management. However, the existence of armed conflict makes the analysis of the Sandinista experience diverge from other populist episodes.

Finally, in chapter 11, Miguel Urrutia analyzes the evolution of economic policy in Colombia in the last four decades. Urrutia forcefully argues that, contrary to most other Latin American countries, Colombia has not experienced populist policies. In making this point, he shows that the most important characteristics of populist regimes, as presented above in this introduction, have been absent in Colombia. In particular, he notes that inflation has not exhibited abrupt bursts, and that, since 1967, the real exchange rate has remained at a "realistic" and stable level without suffering overvaluation interludes. Urrutia argues that the absence of populism in Colombia can be explained by a number of political and institutional factors, including the existence of a well-established two-party political system, the clientelistic nature of politics, and the professionalism of civil servants engaged in economic advice.